

17. NATIONAL INCOME AND PRODUCT ACCOUNTS

The National Income and Product Accounts (NIPA's) are an integrated set of measures of aggregate U.S. economic activity that are prepared by the Department of Commerce. Because the NIPA's are widely used in economic analysis, it is important to show the NIPA presentation of Federal transactions and contrast it with the Budget.

One of the main purposes of the NIPA's is to measure the Nation's total production of goods and services, known as gross domestic product (GDP), and the incomes generated in its production. GDP is a measure of the Nation's final output, which excludes intermediate product to avoid double counting. Government consumption expenditures and gross investment—State and local as well as Federal—are included in GDP as part of final output, together with personal consumption expenditures, gross private domestic investment, and net exports of goods and services (exports minus imports).

Other government expenditures—transfer payments, grants to State and local governments, subsidies, and net interest payments—are not purchases of final output and as such are not included in GDP; however, these transactions are recorded in the NIPA government receipts and expenditure account, together with government consumption expenditures and gross investment.

Federal transactions are included in the NIPA's as part of the government sector¹. The Federal sector is designed to measure certain important economic effects of Federal transactions in a way that is consistent with the conceptual structure of the entire set of integrated accounts. The NIPA Federal sector is not itself a budget, because it is not a financial plan for proposing, determining, and controlling the fiscal activities of the Government. NIPA concepts differ in many ways from budget concepts, and therefore the NIPA presentation of Federal finances is significantly different from that of the budget.

Differences Between the NIPA's and the Budget

Federal transactions in the NIPA's are measured according to NIPA accounting concepts in order to be compatible with the purposes of the NIPA's and other transactions recorded in the NIPA's. As a result they differ from the budget in *netting*, *timing*, and *coverage*.

These differences cause total receipts and expenditures in the NIPA's to differ from total receipts and outlays in the budget. Differences in timing and coverage also cause the NIPA current surplus or deficit to differ from the budget surplus or deficit. Netting differences have equal effects on receipts and expenditures and thus have no effect on the current surplus/deficit. Besides these differences, the NIPA's combine transactions into different categories from those used in the budget.

Netting differences arise when the budget records certain transactions as offsets to outlays while they are recorded as receipts in the NIPA's (or vice versa). The budget treats all income that comes to the Government due to its sovereign powers—mainly, but not exclusively, taxes—as governmental receipts. The budget offsets against outlays any income that arises from voluntary business-type transactions with the public. The NIPA's generally follow this concept as well, and all income to government enterprises such as the Postal Service or the power administrations is offset against expenditures. However, the NIPA's have a narrower definition of “business-type transactions”. Rents, royalties, and regulatory or inspection fees (offsetting receipts in the budget) are recorded in the NIPA's as Government receipts (business nontaxes). The NIPA's include Medicare premiums as Government receipts, while the budget classifies them as business-type transactions (offsetting receipts).

In the budget, any intragovernmental income from one account to another is offset against outlays rather than being recorded as a receipt. Government contributions for Federal employee social insurance (such as social security) is an example: the budget offsets these payments against outlays. In contrast, the NIPA's treat the Federal Government like any other employer and show contributions for Federal employee social insurance as expenditures by the employing agencies and as governmental (rather than offsetting) receipts. The NIPA's also impute certain transactions that are not explicit in the budget. For example, unemployment benefits for Federal employees are financed by direct appropriations rather than social insurance contributions. The NIPA's impute social insurance contributions by employing agencies to finance these benefits—again, treating the Federal Government like any other employer.

¹The other part of the government sector is a set of transactions for all U.S. State and local units of government, treated as a single consolidated entity.

Table 17-1. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1992-2003

(In billions of dollars)

Description	Actual										Estimate	
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
CURRENT RECEIPTS												
Personal tax and nontax receipts	473.9	500.9	541.2	583.7	654.7	736.3	822.7	878.4	989.7	1,004.7	938.8	987.1
Corporate profits tax accruals	115.6	131.0	152.5	177.8	187.8	198.6	206.4	211.3	237.2	191.6	168.6	194.7
Indirect business tax and nontax accruals	80.0	84.1	94.2	93.8	90.3	97.9	97.3	98.2	109.8	111.6	107.4	111.5
Contributions for social insurance	434.9	458.4	487.9	515.8	535.8	566.1	604.2	641.4	695.2	721.1	746.4	786.8
Total current receipts	1,104.4	1,174.3	1,275.8	1,371.0	1,468.6	1,599.0	1,730.7	1,829.3	2,031.9	2,029.1	1,961.2	2,080.1
CURRENT EXPENDITURES												
Consumption expenditures	442.0	444.8	441.6	441.5	435.8	453.8	452.0	464.8	490.2	520.2	577.7	625.2
Defense	314.9	311.1	304.6	299.6	295.5	304.0	300.3	306.1	321.4	336.5	370.2	407.4
Nondefense	127.1	133.7	137.1	141.9	140.2	149.8	151.7	158.7	168.7	183.6	207.5	217.9
Transfer payments	548.4	590.2	614.8	646.6	680.4	711.0	727.9	741.6	770.2	827.8	926.3	933.7
To persons	537.1	573.4	599.3	633.8	668.6	699.9	716.9	730.6	756.4	817.2	911.9	921.1
To the rest of the world	11.3	16.8	15.5	12.8	11.9	11.2	11.0	10.9	13.8	10.6	14.4	12.5
Grants-in-aid to State and local governments	145.5	157.7	172.8	184.3	188.4	191.9	207.2	225.2	242.9	268.8	302.1	333.4
Net interest paid	229.7	228.4	234.0	261.9	272.6	275.4	278.3	267.2	263.0	250.5	221.7	226.3
Subsidies less current surplus of Government enterprises	28.4	38.6	32.9	34.3	34.4	30.8	31.8	34.6	52.4	56.5	45.7	39.6
Wage disbursements less accruals												
Total current expenditures	1,394.1	1,459.7	1,496.0	1,568.6	1,611.6	1,663.0	1,697.1	1,733.3	1,818.6	1,923.8	2,073.5	2,158.2
Current surplus or deficit (-)	-289.7	-285.4	-220.2	-197.5	-143.0	-64.0	33.5	96.0	213.3	105.3	-112.4	-78.1
ADDENDUM												
Gross investment	87.5	86.2	82.1	83.0	85.5	80.7	85.0	91.2	96.3	100.8	106.0	113.4
Defense	60.5	56.8	55.2	53.7	54.9	47.9	49.6	51.5	52.8	56.2	57.6	60.7
Nondefense	27.0	29.4	26.9	29.3	30.6	32.9	35.4	39.7	43.5	44.6	48.3	52.7

* \$50 million or less.

Timing differences for receipts occur because the NIPA's generally record personal taxes and social insurance contributions when they are paid and business taxes when they accrue, while the budget generally records all receipts when they are received. When the NIPA's attribute corporations' final settlement payments back to the quarter(s) in which the profits that gave rise to the tax liability were generated, significant timing differences with the budget arise. When the first of a month falls on a weekend, monthly benefit checks normally mailed on the first of the month may be mailed out a day or two earlier; the budget then reflects two payments in one month and none the next. On occasion, the budget totals reflect 13 monthly payments in one year and only 11 the next. NIPA expenditure figures always reflect 12 benefit payments per year again giving rise to a timing difference compared to the budget.

The budget and the NIPA's also have *coverage differences*. The NIPA's exclude transactions with U.S. territories. The NIPA's also exclude the proceeds from the sales of nonproduced assets such as land. Bonuses paid on Outer Continental Shelf oil leases and proceeds from broadcast spectrum auctions are shown as offsetting receipts in the budget and are deducted from budget outlays. In the NIPA's these transactions are excluded as an exchange of assets with no production involved.

A type of coverage difference arises on the expenditure side because of the NIPA treatment of government investment. The budget includes outlays for Federal investments as they are paid, while the Federal sector of the NIPA instead excludes current investments but includes a depreciation charge on past investments ("consumption of general government fixed capital") as part of "current expenditures." The inclusion of depreciation on fixed capital (structures, equipment and software) in current expenditures is a proxy for the services of capital; i.e., for its contribution to government output of public services.

The treatment of government pension plan income and outgo creates a coverage difference. Where the budget treats employee payments to these pension plans as governmental receipts, and employer contributions by agencies as offsets to outlays, the NIPA's treat both of these components of employee compensation as personal income, in the same way as it treats contributions to pension plans in the private (household) sector. Likewise, the budget records a government check to a retired government employee as a current outlay, but under NIPA concepts, no government expenditure occurs at that time; the payment is treated as a transfer of income within the household sector.

Federal investment grants to State and local governments (such as for interstate highway construction), investment subsidies to business, and forgiveness of

debt owed by foreign governments are included as outlays in the budget but excluded from the NIPA's as being capital transfers. Likewise, estate and gift taxes, included in budget receipts, are excluded from the NIPA's as capital transfers.

Financial transactions such as loan disbursements, loan repayments, loan asset sales, and loan guarantees are excluded from the NIPA's on the grounds that such transactions simply involve an exchange of assets. In contrast, under the Federal Credit Reform Act of 1990, for direct loan obligations and loan guarantee commitments made after 1991, the budget records the estimated subsidy cost of the direct loan or loan guarantee as an outlay when the loan is disbursed. The cash flows with the public are recorded in nonbudgetary accounts as a means of financing the budget rather than as budgetary transactions themselves. This treatment recognizes that part of a Federal direct loan is an exchange of assets with equal value but part is a subsidy to the borrower. It also recognizes the subsidy normally granted by loan guarantees. In the NIPA's, neither the subsidies nor the loan transactions are included. However, the NIPA's, like the budget, include all interest transactions with the public, including net interest paid to the financing accounts.

Deposit insurance outlays for resolving failed banks and thrift institutions are similarly excluded from the NIPA's on the grounds that there are no offsetting current income flows from these transactions. In 1991, this exclusion was the largest difference between the NIPA's and the budget and tended to make the budget deficit larger than the NIPA current deficit. In subsequent years, as assets acquired from failed financial institutions were sold, these collections tended to make the budget deficit smaller than the NIPA current deficit.

Federal Sector Current Receipts

Table 17-1 shows Federal current receipts in the four major categories used in the NIPA's, which are similar to the budget categories but with significant differences.

Personal tax and nontax receipts is the largest category of current receipts. It is composed primarily of personal income taxes, but also includes fees, fines, and other receipts from persons.

Corporate profits tax accruals differs in classification from the corresponding budget category primarily because the NIPA's include the deposit of earnings of the Federal Reserve System as corporate profits taxes, while the budget treats these collections as miscellaneous receipts. The timing difference between the NIPA's and the budget is especially large for corporate receipts.

Indirect business tax and nontax accruals is composed of excise taxes, customs duties, royalties, fines, and other receipts from business.

Contributions for social insurance differs from the corresponding budget category primarily because: (1) the NIPA's include Federal employer contributions for social insurance as a governmental receipt, while the budget offsets these contributions against outlays as undistributed offsetting receipts; (2) the NIPA's include premiums for Part B of Medicare as governmental receipts, while the budget nets them against outlays; (3) the NIPA's treat government employee contributions to their pension plans as personal income, while the budget includes them in governmental receipts; and (4) the NIPA's impute contributions for Federal employees' unemployment insurance and workers' compensation.

Federal Sector Current Expenditures

Table 17-1 shows current expenditures in the six major NIPA categories, which are very different from the budget categories.

Government consumption expenditures are the goods and services purchased by the Federal Government in the current account, including compensation of employees and depreciation. Gross investment (shown as addendum items in Table 17-1) is thus excluded from current expenditures in computing the government current surplus or current deficit on a NIPA basis, whereas depreciation—charges on federally owned fixed capital ("consumption of general government fixed capital")—is included. The NIPA's treat State and local investment and capital consumption in the same way—regardless of the extent to which it is financed with Federal aid (capital transfers) or from State and local own source receipts.

Although gross investment is not included in government current expenditures, both government gross investment and current consumption expenditures (including depreciation) are included in total GDP, which makes the treatment of the government sectors in the NIPA's similar to that of the private sector. Investment includes structures, equipment, and computer software.

Transfer payments are the largest expenditure category. Transfer payments to persons are mainly for income security and health programs, such as Social Security and Medicare. Payment of pension benefits to former government employees is not included, as explained previously. Transfer payments to the rest of the world include grants to foreign governments and payments under Social Security and other similar programs to individuals living abroad.

Grants-in-aid to State and local governments help finance a range of programs, including income security, Medicaid, education, and others (but capital transfers for construction of highways, airports, waste-water treatment plants, and mass transit are excluded).

Table 17-2. RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR, NIPA's

	Actual										Estimate	
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
RECEIPTS												
Budget receipts	1,091.3	1,154.4	1,258.6	1,351.8	1,453.1	1,579.3	1,721.8	1,827.5	2,025.2	1,991.0	1,946.1	2,048.1
Contributions to government employee retirement plans	-4.8	-4.8	-4.7	-4.6	-4.5	-4.4	-4.3	-4.5	-4.8	-4.7	-4.6	-4.6
Capital transfers received	-11.0	-12.3	-15.1	-14.5	-17.1	-19.7	-23.9	-27.6	-28.8	-28.2	-27.3	-22.8
Other coverage differences	-2.0	-2.0	-2.4	-2.5	-3.6	-3.8	-6.2	-7.1	-8.2	-9.2	-9.7	-10.7
Netting and grossing	32.8	37.5	39.2	37.3	37.0	41.6	40.8	41.3	45.3	53.3	53.4	56.3
Timing differences	-1.9	1.6	0.1	3.4	3.6	6.0	2.5	-0.2	3.1	26.9	3.3	13.8
NIPA current receipts	1,104.4	1,174.3	1,275.8	1,371.0	1,468.6	1,599.0	1,730.7	1,829.3	2,031.9	2,029.1	1,961.2	2,080.1
EXPENDITURES												
Budget outlays	1,381.7	1,409.5	1,461.9	1,515.8	1,560.6	1,601.3	1,652.6	1,701.9	1,788.8	1,863.9	2,052.3	2,128.2
Government employee retirement plan transactions	32.7	31.7	30.1	29.0	27.0	31.8	31.6	32.4	31.8	32.0	32.1	41.7
Deposit insurance and other financial transactions	-9.5	20.2	1.5	7.1	-2.0	-8.0	-6.9	-12.1	-4.3	25.7	0.9	-2.6
Capital transfers paid	-21.8	-23.2	-24.6	-27.1	-27.6	-28.8	-28.2	-31.3	-35.0	-39.8	-41.9	-41.7
Net purchases of nonproduced assets	-0.2	-0.2	-0.2	7.4	0.1	11.0	5.2	1.5	-0.1	0.8	0.3	0.2
Net investment	-12.7	-8.3	-1.4	0.4	-0.5	5.6	2.8	-0.5	-1.0	1.3	-0.1	-2.5
Other coverage differences	-5.6	-8.1	-4.8	-3.0	3.0	11.5	0.7	2.0	3.0	-17.0	-18.3	-19.8
Netting and grossing differences	32.8	37.5	39.2	37.3	37.0	41.6	40.8	41.3	45.3	53.3	53.4	56.3
Timing differences	-3.2	0.6	-5.7	1.7	14.0	-3.0	-1.3	-2.0	-10.1	3.8	-5.2	-1.6
NIPA current expenditures	1,394.1	1,459.7	1,496.0	1,568.6	1,611.6	1,663.0	1,697.1	1,733.3	1,818.6	1,923.8	2,073.5	2,158.2
ADDENDUM												
Budget surplus or deficit (-)	-290.4	-255.1	-203.3	-164.0	-107.5	-22.0	69.2	125.5	236.4	127.1	-106.2	-80.2
NIPA current surplus or deficit (-)	-289.7	-285.4	-220.2	-197.5	-143.0	-64.0	33.5	96.0	213.3	105.3	-112.4	-78.1

* \$50 million or less.

Net interest paid is the interest paid by the Government on its debt (excluding debt held by trust funds, other than Federal employee pension plans; and other Government accounts), less interest received on its loans.

Subsidies less current surplus of Government enterprises consist of two elements: (1) subsidy payments for resident businesses (excluding subsidies for investment); and (2) the current surplus (or deficit) of "Government enterprises," such as the Postal Service, which are business-type operations of Government that usually appear in the budget as public enterprise revolving funds. Depreciation (consumption of enterprise fixed capital) is netted in calculating the current surplus of government enterprises.

NIPA subsidies do not include the imputed credit subsidies estimated as budget outlays under credit reform. Rather, loans and guarantees are categorized as financial transactions and are excluded from the NIPA's except for associated interest and fees.

Wage disbursements less accruals is an adjustment that is necessary to the extent that the wages paid in a period differ from the amount earned in the period.

Differences in the Estimates

Since the introduction of the unified budget in January 1968, NIPA receipts have been less than budget receipts in most years. This is due principally to the fact that estate and gift taxes, which they exclude (as

capital transfers), have exceeded Medicare premiums, which they include as a governmental receipt but the budget treats as an offsetting receipt. (In the budget, offsetting receipts are netted against the outlay total and not included in the governmental receipts total.) NIPA current expenditures have usually been higher than budget outlays (from which the Medicare premiums and employer retirement contributions are netted out as offsetting receipts), despite the omission from NIPA expenditures of grants for capital construction and pension benefit payments to former government employees.

Two components of budget outlays, however, are sometimes sufficiently large in combination to match the netting adjustments. These are financial transactions and payments to U.S. territories. Large outlays associated with resolving the failed savings and loan associations and banks in 1990 and 1991 caused those year's budget outlays to exceed NIPA current expenditures. With the change in budgetary treatment of direct loans in 1992 under credit reform, one type of financial transaction—direct loans to the public—has been recorded in the budget in a way that is closer to the NIPA treatment. Disbursement and repayment of loans made since that time are recorded outside the budget as in the Federal sector of the NIPA's, although, unlike the NIPA's, credit subsidies are recorded as budget outlays.

Table 17-3. FEDERAL RECEIPTS AND EXPENDITURES IN THE NIPA's, QUARTERLY, 2000-2002

(In billions of dollars; seasonally adjusted at annual rates)

Description	Actual				Estimate							
	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
	2000	2001	2001	2001	2001	2002	2002	2002	2002	2003	2003	2003
CURRENT RECEIPTS												
Personal tax and nontax receipts	1,040.5	1,051.4	1,060.0	897.2		947.9	945.9	950.9	963.2	985.7	1,010.2	1,041.6
Corporate profits tax accruals	219.4	205.0	197.3	177.4		115.9	123.2	132.1	156.1	161.9	170.3	177.9
Indirect business tax and nontax accruals	112.7	112.2	112.0	110.2		109.8	109.8	109.9	112.0	112.8	114.3	116.3
Contributions for social insurance	704.9	718.8	722.2	722.3		737.3	743.4	750.3	756.6	778.6	786.9	795.9
Total current receipts	2,077.5	2,087.4	2,091.5	1,907.1		1,910.9	1,922.3	1,943.2	1,987.9	2,039.0	2,081.7	2,131.8
CURRENT EXPENDITURES												
Consumption expenditures	494.1	507.5	510.1	513.7		554.1	566.0	573.3	582.2	600.8	610.3	617.1
Defense	325.3	338.3	339.5	343.1		368.8	376.5	381.2	390.1	405.2	412.5	416.7
Nondefense	168.8	169.2	170.6	170.6		185.3	189.5	192.1	192.0	195.6	197.8	200.4
Transfer payments	802.9	811.7	823.3	838.6		899.2	920.1	946.1	939.9	925.9	909.0	894.2
Domestic ("to persons")	777.4	805.8	816.3	830.9		887.5	906.8	931.2	914.5	914.9	900.1	885.8
Foreign	25.5	5.8	7.1	7.7		11.7	13.3	14.9	25.4	10.9	8.9	8.4
Grants-in-aid to State and local governments	250.1	264.0	281.2	266.4		296.8	309.2	316.9	325.0	331.2	336.4	340.9
Net interest paid	259.9	253.5	242.5	232.5		214.4	210.8	210.0	212.0	215.9	219.1	222.2
Subsidies less current surplus of Government enterprises	48.1	45.4	47.6	69.5		48.7	45.2	39.0	37.5	38.7	40.6	42.6
Wage disbursements less accruals												
Total current expenditures	1,855.0	1,882.1	1,904.7	1,920.7		2,013.2	2,051.3	2,085.4	2,096.5	2,112.5	2,115.4	2,117.0
Current surplus	222.5	205.3	186.7	-13.6		-102.3	-129.0	-142.2	-108.6	-73.6	-33.7	14.8
ADDENDUM												
Gross investment	100.1	97.8	99.9	102.0		104.3	106.9	110.2	110.7	113.2	113.6	116.9
Defense	57.1	54.6	56.7	56.5		56.4	57.9	60.0	59.2	60.8	60.2	62.7
Nondefense	43.0	43.2	43.2	45.5		47.9	49.0	50.2	51.5	52.5	53.4	54.1

Department of Commerce advance estimates for the Oct.-Dec. quarter, released January 30, 2002, were not available in time for inclusion in this table.

* \$50 million or less.

During the period 1975-1992, the budget deficit exceeded the Federal current deficit as measured in the NIPA's every year. The largest difference, \$78.7 billion, occurred in 1991 as a result of resolving failed financial institutions as discussed above; the budget deficit was then \$269.4 billion, while the NIPA current deficit was \$190.7 billion. In 1993-1997, the NIPA current account deficit was slightly larger than the budget deficit each year. For 1998-2001, the NIPA current account surplus was lower than the budget surplus. For 2002 the NIPA current account deficit is projected to be larger than the budget deficit, but that for 2003, slightly smaller.

Table 17-1 displays Federal transactions using NIPA concepts with actual data for the years 1992-2001 and

estimates for 2002 and 2003 consistent with the Administration's budget proposals. Table 17-2 summarizes the reasons for differences between the data using budget concepts and NIPA concepts. Table 17-3 displays quarterly data using NIPA concepts beginning in October 2000. Annual NIPA data for 1960-2003 are published in Section 14 of a separate budget volume, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2003*.

Additional detailed estimates of receipts and current expenditures will be published in a forthcoming issue of the Department of Commerce publication, *Survey of Current Business*.